Export Orientation and Structural Adjustment in sub-Saharan Africa

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An 'Agriculture-based and Export-oriented' Strategy

The authors of *Accelerated Development in sub-Saharan Africa: an Agenda for Action* [World Bank 1981] describe the strategy they recommend as 'agriculture-based and export-oriented'. They are critical of past trade and exchange rate policies which 'have overprotected industry, held back agriculture and absorbed much administrative capacity' (p 4). They particularly dislike direct controls over trade, such as import bans and quotas, which 'have proved extremely costly to apply, as they require many trained people and an enlarged administrative apparatus. Moreover, they have frequently been ineffective' (p 5).

The authors of the Report characterise their strategy as:

> . . . open-ended, a necessary beginning. It will help generate the resources Africa needs to consolidate its political and administrative forces, educate and improve the health of its people, and find out what will work and what will not. It will bring forth human talent now neglected and uncover physical resources not yet imagined. And it will open the way to a future whose shape we cannot yet see (p 7).

The main means of increasing export orientation are changes in trade and exchange rate policy. These include: correction of overvalued exchange rates; improved price incentives for exports, including an increase in producer prices for primary commodity exports; lower and more uniform tariff protection for industry; reduced use of direct controls on imports. They admit that there are alternatives to devaluation, such as export subsidies or reduced export taxes, but prefer devaluation (combined with tariff reduction or relaxation of import restrictions) on the grounds that it has less of an adverse effect on the government budget, gives rise to a smaller administrative burden and eases the adjustment process (p 30).

The 'Fallacy of Composition' and Primary Export Prospects

As far as agriculture and primary production are concerned, the Report points out that the volume of such exports has been nearly stagnant or declining in most sub-Saharan African countries (SSA) during the 1970s. Agricultural exports for the region were no greater by the end of the 1970s that they had been in the early 1960s (p 46). The Report's strategy requires a renewed rapid increase in the volume of primary exports. The 'fallacy of composition' inherent in this approach is examined in Stephany Griffith-Jones' article. The Report's advice to increase the volume of exports of primary products may well be sensible if given to the government of a single small country, but not when it covers the whole region. In many cases, the proportion of world output accounted for by SSA (shown in Table 1) is large enough, given elasticities of demand, to mean that an increase in production would result in a fall in income from this source.

For example, SSA produces 84 per cent of the world's palm kernels, 69 per cent of cocoa, 56 per cent of sisal, 41 per cent of groundnut oil, 28 per cent of palm kernel oil, 28 per cent of coffee, 27 per cent of groundnuts and 19 per cent of tea. The beverages, coffee, tea and cocoa, which are among SSA's most important foreign exchange earners, are rendered particularly vulnerable by their low price and income elasticities of demand. Unless the increase in African production is part of an international quota agreement, it does not in such cases make sense.[1]

The Report verges on the disingenuous on this point. 'The slow growth of world demand for many primary commodities', it suggests, 'is not a valid argument [in favour of *not* increasing output of such commodities]

[1] This mistaken extrapolation from possible country options to general prescription is a most inappropriate one for the World Bank to make. Of all bodies, it should be most concerned with the impact of commodity export growth rates on their prices and total earnings for SSA as a region, indeed on all primary exports. However, in falling into this elementary 'fallacy of composition' the *Accelerated Development Report* is in the tradition of 1950s Bank country studies which routinely advised each country to raise its export volume rapidly by diversifying into other countries' major exports in order to avoid worsening terms of trade!

Table 1

Africa's share of world and developing country agricultural exports

	selected agricultural exports of sub-Saharan countries as a percentage:					
	of exports of those products of all developing countries			*of exports of those products of the whole world*		
	1961-63	*1969-71*	*1977-79*	*1961-63*	*1969-71*	*1977-79*
Beverages						
cocoa	81	77	72	80	76	69
coffee	26	30	29	26	29	28
tea	10	17	24	9	14	19
Cereals						
maize	8	4	4	3	1	1
wheat	1	1	—	—	—	—
rice	1	2	—	1	1	—
cereals n.e.s.	17	4	3	4	1	1
Oils and oilseeds						
groundnut oil	61	70	50	54	58	41
groundnuts (shelled)	88	77	55	86	69	27
oilseed cake and meal	16	17	6	10	8	4
palm kernel oil	92	82	32	55	55	28
palm kernels	91	82	84	90	82	84
palm oil	57	17	5	55	16	4
sesame seed	73	78	43	69	75	42
Other						
bananas	11	7	5	11	7	5
cotton	18	23	23	11	16	11
rubber	8	7	5	7	7	5
sisal	65	61	57	61	60	56
sugar	11	13	10	5	6	4
tobacco	22	15	18	12	8	10

Source: World Bank 1981:172

as long as Africa does not even maintain its market share' (p 61). Reference to market share *per se* is surely irrelevant. What matters is the consequence, *ceteris paribus*, of a given increase in SSA output. If it made African farmers worse off than would otherwise be the case, it would be better to sacrifice market share to preserve real export earnings. At the very least, as far as agriculture and primary production are concerned, the consequences of increasing export incentives on a continent-wide basis have to be looked at extremely carefully commodity by commodity.

Prospects for Manufactured Exports — the Kenyan Case

What, then, of the prospects of increasing the export orientation of industry? Scepticism about the prospects of raising foreign exchange earnings from primary production, purely as a matter of arithmetic, puts an enormous burden on industry. For instance, Table 9.2 (p 122) projects a growth rate in real export earnings during the 1980s, given a 'substantial aid increase' and 'policy reform', of 5.2 per cent a year. If primary product export earnings are stagnant and if fuel exports at the annual average of 3.7 per cent for all developing countries (on the Report's 'high-case' assumptions) this implies a need for manufactured exports to grow at an annual average real rate of 28 per cent! Even the World Bank team does not think that this is possible but it does say:

> there is no reason why some of the relatively more advanced countries such as Ivory Coast, Kenya, Mauritius and Zimbabwe, should not be able to

increase the volume of manufactured exports by at least 10 per cent per year (p 96).

Since Kenya is cited, let us look in more detail at the prospects for its manufactured exports. As Table 2 shows, Kenya's performance over the past decade in this respect has been nothing short of disastrous. The annual rate of growth in earnings at current prices of manufactured exports (including even slightly processed products, but excluding fuel and lubricants based entirely on imported crude oil) was only 5.8 per cent between 1973 and 1980.

Since price inflation was over 14 per cent on average, this implies a substantial fall in the volume of Kenya's manufactured exports between 1973 and 1980, in spite of vigorous promotional efforts.

Prospects in Neighbouring Markets

As can be seen, over half of Kenya's manufactured exports now consists of processed fuel and lubricants from the Mombasa oil refinery. Apart from these, exporting of manufactures is mainly a matter of disposing of surpluses of goods produced essentially for the home market in neighbouring countries. Continued expansion of such exports depends on keeping Kenya's import substitution process one step ahead of those in its neighbours.[2] Even in ideal conditions (as existed for Kenya in the East African Community before it broke up to 1977) such a strategy was not easy [see Porter 1974 for further discussion]. As Tanzania and Uganda set up their own manufacturing facilities Kenyan exporters had to switch products (for instance, from beer, soap, paint, bicycle tyres, footwear and matches to batteries, insulated wire, gramophone records and plastic products). Prior to the Community's final collapse it was becoming more and more difficult for Kenya to rely on keeping one step ahead to sustain export growth to these markets. The markets were growing more slowly; Tanzania and — until 1971 — Uganda were accelerating their own import substitution; and the cost of Kenya's new products relative to imports from elsewhere was increasing. A similar process affected other neighbouring markets as growth slowed and competition increased both from third countries and from their own import substituting industries.

Since the disintegration of the Community and closure of the Tanzanian border (which cut off land routes to the markets of Zambia and Burundi as well as that of Tanzania), the war and its aftermath in Uganda, and poor relations with Somalia have hampered the traditional policy of keeping one step ahead of import substitution in neighbouring markets. Moreover, Zimbabwe has emerged as a dangerous new competitor in these markets (and in the Kenyan home market). Kenyan manufacturers have big hopes of reopening the border with Tanzania and of continued revival in the Ugandan market. The former has, however, been 'imminent' for years and is in any case of limited importance while Tanzania's (and others) foreign exchange crisis remains so acute. Although Uganda has once again become Kenya's most important market, it is unlikely to offer the bonanza that some appear to expect.[3] Markets for manufactured

[2]The mechanisms of a manufactured export sector led by surplus output of domestic market oriented import substitution industries are unlikely to be those of the export market centred industries believed to characterise NICs.

[3]Indeed the strength of Kenyan manufactured exports to Uganda is largely caused by the collapse of the Ugandan industrial sector. While economic recovery in Uganda would increase total demand for manufactures it would also increase domestic production in precisely those lines which form the bulk of Kenyan exports to Uganda.

Table 2

Kenya's exports of manufactured goods 1973-80

	(K£ 000,000)				
	1973	*1977*	*1978*	*1979*	*1980*
Processed food and beverages	15	26	19	25	30
Processed industrial supplies	28	37	36	41	41
Processed fuel and lubricants	22	83	69	77	161
Machinery and capital equipment	3	1	1	2	3
Transport equipment	4	1	1	1	2
Other consumer goods	14	15	15	16	19
Total	86	163	141	161	256
Total less fuel and lubricants	64	80	72	83	95

Source: Economic Surveys, Central Bureau of Statistics, Nairobi.

goods have expanded in oil producing countries, particularly in the Arab region. Infrequent, unreliable and costly shipping schedules make it difficult for Kenya to gain a foothold in these. This has happened only in the case of cement, which is an 'early-stage' product in the process of industrialisation, and has a potentially volatile market.

Prospects in More Distant Markets

As for more distant markets (which at present account for only about a tenth of manufactured exports), Porter's calculations [Porter 1974] implied that there was little prospect of Kenya inserting itself into world trade in manufactures purely on the basis of cheap labour. The Report has reinforced and updated this

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African exports are concentrated in a narrow range of commodities with poor price and quantity growth prospects. (Loading cocoa in Ghana) conclusion and applied it to SSA as a whole. Although the examples of newly industrialising countries (NICs) such as Hong Kong, Singapore, Taiwan and South Korea (or the idealised and possibly distorted version of their experience presented in the Report) obviously dazzle the authors, they do recognise that:

> neither the past record nor newly uncovered special advantages suggests that concentration on exports of labour-intensive manufactures is a promising strategy for most of Africa . . . Labour costs and productivity plus high management costs place Africa at a severe disadvantage compared with Asia (p 94).

This means that the export effort has to be founded on resource-based industries. In Kenya's case these include, for example, fruit and vegetable canning, furniture and wood products, textiles and clothing, footwear, sugar, confectionery, cordage, soda ash and wattle extract.

Various problems exist in the manufacture of these products. First, markets are growing only slowly. The *World Development Report 1982* [World Bank 1982] predicts slower growth in industrialised economies in the 1980s than in the 1970s. Such growth as is likely to occur is expected to be relatively jobless, offering no relief to existing massive industrial-economy unemployment. This means not only that markets for primary products are going to be growing even more slowly than usual, but also that the protectionist mood in industrialised countries is likely to be reinforced, and competition in third markets for manufactured goods to be increased. Secondly, the element of value added in what the Report recognises as often only 'slightly processed resources' is low. Thirdly, some kind of tie-in with a transnational corporation (TNC) is usually a precondition of penetrating European or American markets for these products. For example, Kenya exports soda ash through Imperial Chemical Industries and wattle extract through Lonrho. As Langdon [1980] points out, the Ivory Coast's (short-lived) success as an exporter of textiles to Europe was due to its French TNC connections. The Kenyan textile industry was unable to break into the European textile market partly because of its lack of a longstanding European TNC connection.[4] The only promising case for Kenya in this respect is food processing.

With prospects in more distant markets so poor, the only African economies likely to achieve growth in manufactured exports are those able to establish a 'peripheral-centre' or 'Brazilian' role in relation to neighbouring economies and to hold on to it. This is what Kenya did in relation to the East African Community in the 1950s, 1960s and early 1970s. Zimbabwe is attempting a similar approach in relation to Central and Southern Africa today. Occasional windfalls occur (in the Kenyan case a major example was the combination of Ugandan de-industrialisation and coffee boom in 1977-78), but in general this is a difficult role to sustain. At a time of continental recession and foreign-exchange crisis the situation looks even less promising. It is likely to prove a near-zero-sum game with very small winnings.

Timing and Extent of the Package for SSA are Crucial

Even when looked at from the viewpoint of one of the 'relatively more advanced countries' such as Kenya, the package advocated in the Report as regards manufacturing could be seen as *either* sensible but fairly ineffective *or* disastrous. This would depend on its timing and its extent.

The Report points correctly to the inefficiency of much of SSA's industry. It uses as an example a survey which showed that the cost of Kenya-produced cans alone was higher than the landed price of canned vegetables from Asian competitors located in the Arabian Gulf (p 27). In general, the prices of locally manufactured products in Kenya range between twice and eight times the border price of the imported equivalent. Surveys in other African economies would probably reveal a similar picture.

This can be taken in either of two ways. On the one hand, it shows that local industry is currently both inefficient and ineffective. On the other hand it shows that it is extremely vulnerable to the *sudden* removal of direct controls and a *substantial* lowering of tariffs (even if accompanied by devaluation).[5] Indeed most of it would be wiped out. Some economists would face this prospect with equanimity or see it as, in the Report's words, a process of 'clearing out the deadwood'. On the other hand, it can be taken to show that long-term manufacturing development (including exports) require present and medium-term protection. There is a danger of ignoring the dynamic arguments in favour of industrialisation. Singer's emphasis on the indirect effects of manufacturing industries as 'growing points for increased technical knowledge, urban education, and the dynamism and resilience that goes with urban civilisation, as well as the direct

[4]As neither Kenya nor the Ivory Coast is either self-sufficient in cotton nor a producer of synthetic or artificial staple fibre, it may be questioned whether these are actually resource based industries. If not, they fall under the general doubts expressed about cheap labour based manufactured export development.

[5]The Bank team, on the basis of research done in other economies (p 30), seems over-optimistic about the impact of devaluation in SSA. Within six months of the September 1981 15 per cent devaluation in Kenya three quarters of its effect has been wiped out by increases in the annual rate of inflation.

Marshallian external economies' [Singer 1950] is still valid. So is the emphasis of Chenery [1955] and Scitovsky [1954] on the dynamic external economies enjoyed by an industry as a result of cost reductions or demand increases in other sectors. Such externalities make it dangerous to proceed as if future factor supplies were given, rather than the consequence of current resource allocation, and to plan in terms of static rather than dynamic comparative advantage.

Certainly there is a case that most direct controls on imports (particularly the Kenyan version which hands control of the controls over to monopolistic companies) should be removed.[6] The small size of the market means, however, that tariffs on imported goods which are produced locally will have to be high initially, with a phased programme of reduction to allow survival and growth of productivity over time. It is possible that the authors of the Report would agree with this. 'Sooner or later most countries will also have to increase manufactured exports to maintain industrial growth, expand employment opportunities and diversify exports' (p 95). Quite so. But in Africa it has to be later rather than sooner.

The 28 per cent rate of increase in manufactured exports implied by the arithmetic of the Bank's strategy is totally unrealistic. Even the 10 per cent rate of increase actually proposed for a handful of countries is not feasible. In this important respect the strategy has its sums wrong and needs to be re-thought.

[6]This is not inconsistent with accepting overall macro import limits. These could be enforced by means other than product by product licensing.

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